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Quarterly newsletter – Q4 2021

Helping you to navigate the next three months of climate activity



The next few weeks and months will see climate change policy reach fever-pitch. COP26 in Glasgow in November will see a significant focus on the role of finance in decarbonising the economy and we are already seeing new policy initiatives.

For example, the investment consulting industry has established the [Net Zero Investment Consultants Initiative](#) with 12 founder signatories and the largest pension funds and master trusts have put in place explicit climate governance policies as required by legislation.

There are numerous industry initiatives and consultations. For example, over the summer, the [TCFD](#) consulted on climate-related metrics, targets and transition plans and is expected to publish guidance later this month. We expect that there will be further initiatives and developments over the coming months and the Paris Alignment Forum is here to help the industry navigate its way through and to provide a platform for informed debate.

The Paris Alignment Forum continues to grow and now has more than 300 members. We include pension funds, independent trustees, climate specialists, government, consultants and asset managers amongst our membership. This year we are running more than 20 events covering dedicated training, afternoon tea discussions, confidential asset owner meetings and our quarterly all-member events.

We want to acknowledge and recognize asset owners, advisers and managers who are leading the way which is why we have launched the 2021 Paris Alignment Awards. If you are a pension fund, or you advise or manage assets for a pension fund see below for details on how to enter for an award at our [prizegiving event in November](#).

Paris Alignment Awards

The entry process is simple – just submit a pre-existing document under one of the awards headings:



Best climate change member communication

This could be a stand-alone document or an excerpt from a document such as a member newsletter, or a link to a website or video.



Best climate governance and strategy statement

This could be a policy document; voluntary TCFD disclosures, an extract from the SIP or any document which describes the pension fund's approach to climate change.

For full details of the submission process and criteria please follow [this link](#).



Programme of events for Q4



Online morning coffee

Tuesday 12 October, 10.30am-11.30am

Investing for net zero? Direct investment into new clean technologies is an imperative to get us there - *CGF*

[Click for more](#)
[Register](#)

It is not enough to encourage companies in existing listed portfolios to reduce their emissions. The reality is, we won't get to net zero unless investors also put money into creating and scaling up new technologies and solutions to provide, develop and commercialise the technology required to reach net zero. Investors need to look urgently at more than listed equities.



Interactive online training

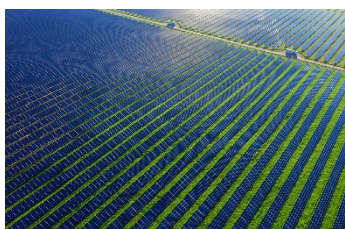
Monday 18 October, 2.30pm-4.00pm

Carbon data and measurement explained – *Natixis Investment Managers/Mirova*

[Click for more](#)
[Register](#)

In this session, speaker Jean-Pierre Dmirdjian of Mirova will describe both the technical and organisational challenge related to defining carbon metrics, including:

- Measuring Scope 1, 2 & 3, along with avoided emissions
- How this drives investment decisions
- Relationship with TCFD



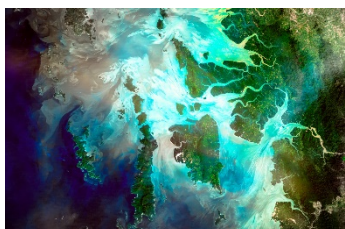
Asset owner event

Monday 25 October, 9.30am-11.00am

Climate change and pension schemes – there's a price to pay!

[Click for more](#)
[Register](#)

This is a Chatham House peer-to-peer discussion for pension funds and asset owners. The costs of investing in a climate aware manner are disproportionately felt by asset owners. If climate change is "a code red for humanity" and a financially material risk for Trustees – shouldn't the costs be spread more fairly through the financial chain? Jessie Wilson of Dalriada Trustees will introduce the session by discussing increased costs and other practical hurdles, and solutions, facing trustees when attempting to invest in a climate aware manner. This will be followed by shared experiences from those present. This session is for asset owners only.



Online afternoon tea

Tuesday 9 November, 2.30pm-3.30pm

Implementing net zero alignment in investment grade credit portfolios – *Invesco*

[Click for more](#)
[Register](#)

This afternoon tea session will take place during COP26 and it focuses on one of the most important asset classes for mature pension funds – long term, cashflow generating, buy and maintain credit. We will debate the exposures to climate change in such portfolios and the fiduciary duty to manage these risks. Invesco will take the debate further than risk management, discussing how it's possible to align a global buy and maintain

credit portfolio with the goal of net zero. They will explain that this can be done without sacrificing the diversification, yield and cashflow generation profiles that are required by UK pension funds.



Interactive online training

Wednesday 24 November, 10.30am-12.00pm

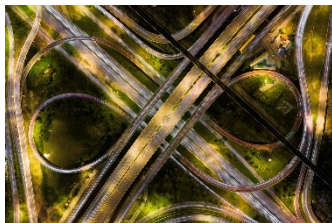
What is the likelihood of companies meeting their net zero goals? And how

[Click for more](#)[Register](#)

to identify the laggards – *Acadian Asset Management*

This training session explains how a systematic approach using advanced data techniques, such as natural language processing, can identify the likelihood of a company meeting its net zero goal by a stated date. We discuss the unique perspective a systematic manager has and the stewardship role a systematic manager can play in ensuring company alignment to a net zero transition. Key learning outcomes are:

- Develop an understanding of the unique data sources that are available
- Explore the differences between ESG data providers
- Learn about tools to identify companies who are likely to be climate laggards

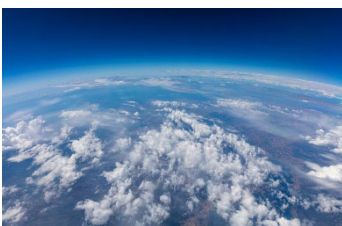


All-stakeholder event

Friday 26 November, 9.30am-11.00am

[Pre-register](#)

Our quarterly online events are for all members of the forum and are a unique opportunity for asset owners, advisers, investment managers, climate experts and regulators to meet and make progress on managing the challenge of climate change. The keynote address will be followed by a Q&A session and smaller group discussions. More information to follow, but you can pre-register via the button.



Online afternoon tea

Wednesday 1 December, 2.30pm-3.30pm

[Pre-register](#)

Is it possible to construct a Paris Aligned portfolio in the real world

Natixis Investment Managers

In this afternoon tea session we will discuss what it means to construct a real world Paris Aligned portfolio. It is well known that it is possible to hold a net zero portfolio right now but that does little to contribute to real world economic transition. What can asset owners do to do more?





In-person and online afternoon tea

Wednesday 8 December, 3.00pm-4.00pm

Aviva Investors

[Pre-register](#)

This is our first hybrid event with attendees invited to join us either online or in-person at Aviva's offices in London. Please register in the normal way using the Zoom registration link opposite and indicating whether you intend to join in person.

Paris Alignment Forum sponsors

The Paris Alignment Forum is sponsored by Redington and Invesco. Below, they share some insights as part of our quarterly update.

Redington's 2021 Sustainable Investment Survey

At Redington, we've been asking asset managers about their environmental, social and governance (ESG) efforts as part of our manager research process for several years, and in 2020 we decided to publish their responses in our first Sustainable Investment survey. We were delighted with the response and, in particular, the number of asset managers who asked us for our thoughts on how they could improve – which is what we hoped our survey would achieve.

With responses from 112 global asset managers, representing over \$10 trillion in combined assets under management, this year's survey provides a detailed insight into a broad spectrum of sustainable investment topics covering ESG integration and stewardship, climate change and inclusion and diversity.

"At Redington, we're committed to helping make 100 million people financially secure – for the benefit of people and planet. This purpose is in our DNA. It's what drives our people to show up every single day, motivated to achieve the best possible outcomes for our clients and their end beneficiaries.

It's in this spirit that we survey the asset management community and offer our thoughts on the results. We look to you to read and engage with our survey, using this information to hold asset managers to account. Through this – and in collaboration with our clients, partners, industry peers and policymakers – we hope to change our industry, and society as a whole, for the better." Mitesh Sheth, CEO

You can read the full survey [here](#).

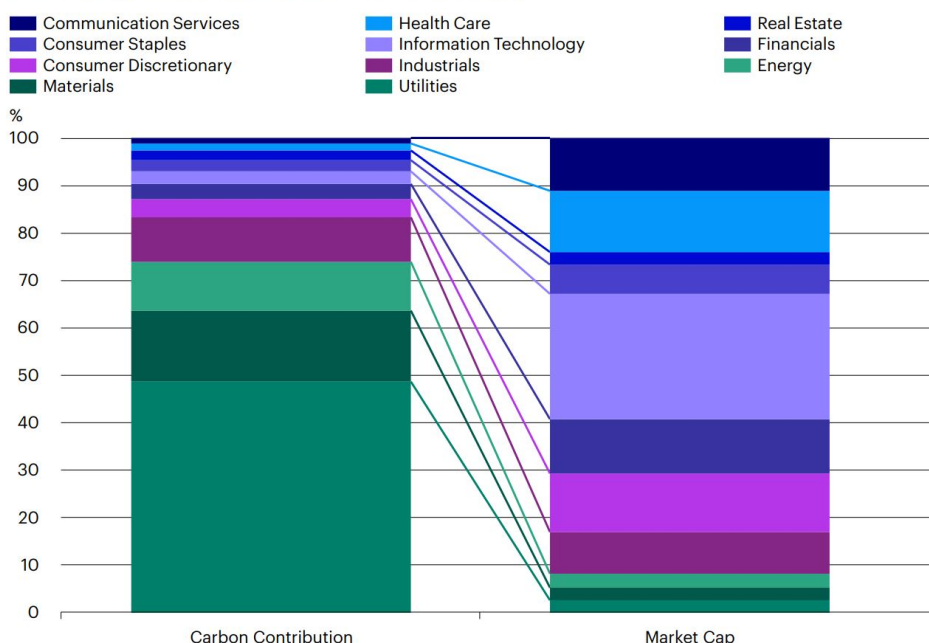


Low carbon portfolios – why defensive is not always dirty *Invesco*

With traditional low volatility portfolios loading up on high carbon emitters like utilities and materials companies, pursuing environmental goals seems difficult. To address this challenge, Invesco have developed a new approach that successfully combines low volatility with low carbon exposure.

Many analysts deem companies with high emissions riskier as they likely face additional costs in the transition to a low carbon economy. Carbon intensity, defined as carbon emissions per unit of output, is not equally distributed across the stock universe. Rather, it is concentrated in a minority of high-emitting companies and sectors. Indeed, about 5% of stocks by market capitalisation account for 75% of total S&P 500 carbon emissions¹.

Carbon intensity is heavily tilted to a few sectors Sector contributions to S&P 500 carbon intensity



Source: S&P, ISS Ethix; as of March 31, 2021, using 2019 emissions data.

The distribution looks almost identical for the MSCI World. When you look at the carbon intensity of different sectors in the S&P 500, you see it is heavily tilted towards certain industries: the utilities sector contributes 49% to the total carbon emissions while accounting for only 2.7% of the market cap. When adding the materials, industrials and energy sectors, 73.8% of the carbon exposure in the index can be attributed to sectors accounting for only 8.2% of market capitalization¹.

This indicates that investors looking to reduce their carbon footprint should carefully monitor sector risk or take steps to mitigate it. Excluding high-emitting industry sectors from portfolios may seem an easy solution. But this would more than likely result in unintended bets and higher volatility.

In this [low volatility, low carbon article](#)^{*}, Invesco address this issue and discuss:-

- Constructing a low volatility, low carbon portfolio.
- Alongside low volatility, incorporating other style factors such as quality, momentum or value.
- Climate scenario modelling for a 'immediate Paris alignment transition', 'delayed transition' and a 'hot-house world'.

¹ Source: MSCI, S&P, ISS Ethix; as of March 31, 2021, using 2019 emissions data.

^{*}For Professional Investors only

This is your Forum – tell us what you want

We would like your feedback on what you would like from the forum and invite you email [Mike](#) or [Karen](#). We are particularly interested to hear about the way we cover COP26, future training events, provision of on-demand training materials; and your preferences for on-line vs in-person events.

Pensions for Purpose

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. Our aim is to empower pension funds to seek positive impact opportunities and mitigate negative impact risks.

This newsletter is an update on Paris Alignment Forum activities which is published quarterly. If you would like to unsubscribe from the newsletter, or wish to leave the forum, please contact mike.rogers@pensionsforpurpose.com.